

BEFORE THE COMMISSIONER OF INSURANCE
STATE OF COLORADO

Division of Insurance Case No. 5707

STIPULATION FOR ENTRY OF FINAL AGENCY ORDER

IN THE MATTER OF THE MARKET CONDUCT EXAMINATION OF MID-
CENTURY INSURANCE COMPANY

The Colorado Division of Insurance ("Division") and Mid-Century Insurance Company ("Mid-Century") collectively referred to as the "Parties," hereby enter into the following Stipulation for Entry of Final Agency Order Re: Market Conduct Examination of Mid-Century Insurance Company ("Stipulation").

1. A Market Conduct Examination of Mid-Century ("MCE") was called by the Division on May 27, 2010 for the period January 1, 2009 through December 31, 2009, and principally addressed Mid-Century's workers' compensation business in Colorado, including the examination of the following:
 - a. Company Operations and Management;
 - b. Contract Forms;
 - c. Rates;
 - d. Underwriting: New and Renewal Business;
 - e. Claims Reporting via Unit Cards to the NCCI.
2. The MCE was conducted by the Division's independent contract examiners. Mid-Century cooperated with the MCE, provided access to its files and responded timely to requests of the examiners.
3. The MCE was completed on December 17, 2010, and the MCE Report of the findings of MCE, dated December 17, 2010, was provided by the contract examiners to the Division. Subsequently, on February 11, 2011, the Division timely transmitted the MCE Report to Mid-Century. The MCE Report set forth issues and recommendations identified by the Division. The Oath and Verification regarding the MCE Report was signed on December 17, 2010.
4. On March 4, 2011, pursuant to §10-1-205(2), Mid-Century timely made a submission ("Mid-Century Submission") to the Division in response to the MCE Report. The Mid-Century Submission addressed the issues and recommendations set out in the MCE Report and further provided Mid-Century's position and challenges related to the same, identified various revisions to its procedures and forms, and indicated remedial actions that it was taking regarding future compliance as to the non-challenged Report findings and recommendations.

5. On April 13, 2011, pursuant to §10-1-205(3)(a) Interim Commissioner John Postolowski ("Interim Commissioner") issued a Final Agency Order O-11-130 ("FAO130") adopting the MCE Report. In FAO130 the Interim Commissioner assessed a civil penalty of \$62,000.00 along with a surcharge of \$6,200 for a total amount of \$68,200 against Mid-Century as a result of the findings of FAO130 and the MCE Report and required that this amount be paid within 30 days of the date of FAO130.
6. FAO130 and the MCE Report were transmitted to Mid-Century on April 13, 2011 by the Division.
7. On May 13, 2011, Mid-Century filed a Verified Complaint for Judicial Review in Denver District Court, Case No. 2011CV3577 ("Complaint"), seeking declaratory judgment, injunctive relief and judicial review of FAO130 and other matters related to the MCE and the MCE Report, and naming the Interim Commissioner and the Division as defendants. The Defendants filed an Answer to the Complaint on or about June 8, 2011. Upon the appointment of Jim Riesberg as Commissioner of Insurance ("Commissioner"), the parties substituted the Commissioner for the Interim Commissioner as a defendant in the pending litigation. Subsequently, the parties have filed motions in the District Court case, and have been granted additional time to engage in settlement negotiations and to consummate the settlement reflected in this Stipulation.
8. On May 25, 2011, Mid-Century also filed a Notice of Appeal and an Unopposed Motion to Stay Judicial Proceedings Pending Resolution of Judicial Review in the Colorado Court of Appeals, Case No. 2011CA1091. On June 13, 2011, the Court of Appeals stayed payment of the civil penalty by Mid-Century, conditioned upon the filing of a supersedeas bond in the District Court securing payment of the civil penalty, and further stayed all proceedings in the Court of Appeals pending resolution of the Denver District Court matter, whether through settlement or litigation.
9. Since the above matters have been pending, the Parties have conducted settlement negotiations and have reached the following agreement in full settlement and resolution of all claims and related matters, including resolution of all issues set forth in the Division's MCE Report and an Amended FAO to be entered by the Commissioner. In addition, Mid-Century filed its audit rating procedure and the Division issued Bulletin B-5.30. Upon execution of this Stipulation and the other associated undertakings, Mid-Century agrees to dismiss, with prejudice, the proceedings in the Denver District Court and the Colorado Court of Appeals.
10. Upon execution of this Stipulation, the Commissioner, for himself and on behalf of the Division, hereby agrees to sign an Amended Final Agency Order ("Amended FAO") concerning the MCE, the MCE Report, and all matters related thereto, which Amended FAO will supersede FAO130.
11. Pursuant to the Amended FAO, Mid-Century agrees to pay a civil penalty of Sixty Thousand Dollars (\$60,000.00) plus a surcharge of Six Thousand Dollars (\$6,000.00) for a total of Sixty-six Thousand Dollars (\$66,000.00) to the Division within 14 days of the date that the Amended FAO approving this Stipulation is

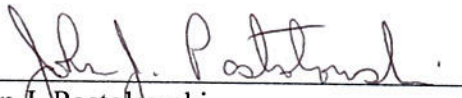
signed by the Commissioner. Upon payment of this amount, the Commissioner and the Division agree to sign all necessary papers to release and return to Mid-Century, the cash bond filed in the Denver District Court.

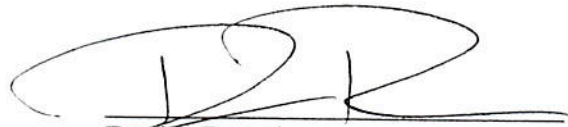
12. Mid-Century agrees it will undertake and complete by December 31, 2011, all the procedure changes, modification of forms, and other remedial measures set out in the MCE Report. Within 30 days of December 31, 2011, Mid-Century agrees to submit written confirmation to the Division, through a statement signed by an officer of the company, attesting that to the best of that officer's information, knowledge and belief, that Mid-Century has completed all the procedure changes, modifications of forms, and other remedial measures required by the MCE Report.
13. Mid-Century understands and agrees that the Division may conduct other market conduct examinations of Mid-Century's workers' compensation insurance business, as may be permitted by law.
14. Mid-Century has paid all outstanding costs of the market conduct examination embodied in the MCE Report, including any contractor fees that were due and owing up to and including the date of this Stipulation. Payment of these costs was in addition to the civil penalties and surcharge which is to be paid by Mid-Century pursuant to paragraph 11 above.
15. By entering into this Stipulation, Mid-Century knowingly and voluntarily waives its rights concerning the subject MCE, MCE Report and FAO130 pursuant to Colorado statutes and law governing the same, including but not limited to, a hearing in this matter; the right to be represented at such hearing by counsel chosen and retained by Mid-Century; the right to present a defense, oral and documentary evidence; to cross-examine witnesses at such hearing; and the right to seek judicial review or other relief regarding the above. Nothing in this provision shall limit or otherwise affect Mid-Century's rights pursuant to Colorado statutes and law governing MCEs with respect to any future MCE that the Division conducts.
16. Mid-Century's execution of this Stipulation is not an admission of any violation or liability by Mid-Century regarding the challenged Issue F1 described in the MCE Report, but is instead an agreement to settle the disputed contentions regarding Issue F1 referenced in the Complaint and Colorado Court of Appeals Case No. 2011CA1091. Despite this statement of non-admission, Mid-Century agrees to pay a civil penalty associated with the alleged violation described in Issue F1 of the MCE Report; Mid-Century agrees that it has since complied with the Division's interpretation of the applicable Colorado insurance statutes and regulations set forth in Issue F1 of the MCE Report and in Division Bulletin B-5.30; and, Mid-Century agrees that it will continue to comply with said statutes, regulations and Bulletin so long as they remain in effect.
17. The Division and Mid-Century agree that upon completion and full compliance with Paragraphs 10, 11 and 12, as set forth herein, this Stipulation shall be a full and final settlement and resolution of all issues that were the subject of the

Denver District Court Case No. 2011CV3577 and Court of Appeals Case No. 2011CA1091 and the MCE Report. This Stipulation is intended to resolve all of the civil claims between the Commissioner, the Interim Commissioner, the Division and Mid-Century, its officers, directors and employees as of the date of the Stipulation. The parties agree to execute any papers necessary to dismiss Denver District Court Case No. 2011CV3577 and Court of Appeals Case No. 2011CA1091, with prejudice, each party to pay their respective attorney fees and costs.

18. Mid-Century understands and acknowledges that the Division may take such lawful steps as may be required or appropriate to investigate and determine whether Mid-Century is in compliance with the Stipulation and the Amended FAO approving this Stipulation.
19. In the event the Division takes action relating to alleged violations of this Stipulation or Amended FAO, said Stipulation, Amended FAO and all related materials shall be deemed admissible in full in that proceeding for any relevant purpose.
20. Mid-Century enters into this Stipulation freely and voluntarily, after having the opportunity to consult with legal counsel of its choice, and with full understanding and acceptance of the legal consequences of this Stipulation and the Amended FAO.
21. Mid-Century understands that this Stipulation and the Amended FAO shall be reported to the National Association of Insurance Commissioners pursuant to §§ 10-2-416(5)(e) and 10-2-803(2), C.R.S.
22. Invalidation of any provision of this Stipulation or the Amended FAO by a court of competent jurisdiction will in no way affect any other provisions, which shall remain in full force and effect.
23. This Stipulation and Amended FAO embody the entire agreement between Mid-Century, the Commissioner, and the Division, and there are no agreements, understandings, representations or warranties that are not expressly set forth herein.
24. Upon the Commissioner's entry of the Amended FAO, this Stipulation and Amended FAO shall be a public record in the custody of the Division under the Colorado Public Records Act, § 24-72-101, *et seq.*, C.R.S.
25. This Stipulation is subject to approval by the Commissioner or his designee, and shall become binding upon the parties hereto upon such approval. In the event the Commissioner does not approve this Stipulation, the parties shall retain all claims and defenses available to them had this Stipulation not been entered into by the Parties.
26. The Parties retain all legal rights to enforce the terms of this Stipulation as may be applicable in a court of competent jurisdiction.

Signed and dated this 3rd day of November, 2011.


John J. Postolowski
Deputy Commissioner of Finance and
Administration

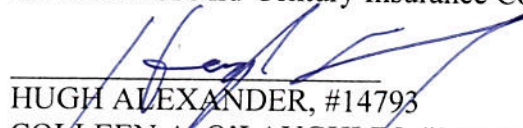

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Approved as to Form:

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